

hydrogen

Proposed Acquisition of Argyll Scott

May 2017



Disclaimer

IMPORTANT NOTICE

The information contained in these slides has been prepared by Hydrogen Group PLC (**Company**) in connection with the proposed acquisition (**Acquisition**) of the entire issued share capital of Argyll Scott (Holdings) Limited and the proposed resolution to give the Directors authority to issue ordinary shares in the capital of the Company (**Ordinary Shares**) as consideration for the Acquisition. The information in these slides and the presentation made to you verbally is subject to updating, completion, revision, further verification and amendment without notice.

Some or all of the information contained in these slides and the presentation (and any other information which may be provided) may be inside information relating to the securities of the Company within the meaning of the Criminal Justice Act 1993 and the Market Abuse Regulation (EU/596/2014) (**MAR**). Recipients of this information shall not disclose any of this information to another person or use this information or any other information to deal, or to recommend or induce another person to deal in the securities of the Company (or attempt to do so). Recipients of this information shall ensure that they comply or any person to whom they disclose any of this information complies with this paragraph and also with MAR. The term “deal” is to be construed in accordance with the Criminal Justice Act 1993 and with MAR. Recipients of these slides and the presentation should not therefore deal in any way in Ordinary Shares in the capital of the Company (**Ordinary Shares**) until the date of a formal announcement by the Company in connection with the Acquisition. Dealing in Ordinary Shares in advance of this date may result in civil and/or criminal liability.

These slides and the presentation do not constitute or form part of any offer for sale or solicitation or any offer to buy or subscribe for any securities nor will they or any part of them form the basis of, or be relied on in connection with, or act as any inducement to enter into, any contract or commitment.

No undertaking, representation, warranty or other assurance, express or implied, is made or given by or on behalf of the Company or Shore Capital and Corporate Limited or any of their respective directors, officers, partners, employees, agents or advisers, or any other person, as to the accuracy or completeness of the information or opinions contained in these slides or the presentation. In addition, in issuing these slides, the Company does not undertake any obligation to update or to correct any inaccuracies which may become apparent in these slides. Accordingly, no responsibility or liability is accepted by any of them for any such information or opinions or for any errors, omissions, misstatements, negligence or otherwise for any other communication, written or otherwise, but except that nothing in this paragraph will exclude liability for any undertaking, representation, warranty or other assurance made fraudulently. Shore Capital and Corporate Limited (**SCC**), which is regulated by the Financial Conduct Authority, is advising the Company and no one else (whether or not a recipient of these slides) in connection with the Acquisition and will not be responsible to anyone, other than the Company, for providing the protections afforded to customers of SCC, nor for providing advice in relation to the Acquisition.

SCC has not authorised the contents of these slides or any of them. These slides are for distribution in or from the UK only to persons authorised or exempted within the meaning of those expressions under FSMA 2000 or any order made under it or to those persons to whom these slides may be lawfully distributed pursuant to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (**Financial Promotion Order**) as amended, including Investment Professionals as defined in article 19(5) and high net worth entities as defined in article 49(2) of the Financial Promotion Order. Persons who do not fall within any of these definitions should not rely on these slides nor take any action upon them, but should return them immediately to SCC.

These slides are confidential and are being supplied to you solely for your information and may not be reproduced, redistributed or passed to any other person or published in whole or in part for any purpose. By accepting receipt of this document, you agree to be bound by the limitations and restrictions set out above.

Neither these slides nor any copy of them may be taken or transmitted into the United States of America or its territories or possessions (United States), or distributed, directly or indirectly, in the United States, or to any U.S. Person as defined in Regulation S under the Securities Act 1933 as amended, including U.S. resident corporations, or other entities organised under the laws of the United States or any state of the United States, or non-U.S. branches or agencies of such corporations or entities. Neither these slides nor any copy of them may be taken or transmitted into or distributed in Canada, Australia, Japan, South Africa or the Republic of Ireland, or any other jurisdiction which prohibits such taking in, transmission or distribution, except in compliance with applicable securities laws. Any failure to comply with this restriction may constitute a violation of United States or other national securities laws.

Presentation team



Ian Temple, CEO

Ian is a Chartered Accountant and founder of Hydrogen Group, which began operating in 1997.

He is passionate about people getting the most from their careers and driving organisations' performance.

Ian was Chairman until March 2015 when he became CEO and has been focussed on moving the business back into growth.

By empowering careers and powering businesses, Hydrogen has grown from a start up to a global business listed on AIM on the London Stock Exchange.



John Hunter, proposed Executive Director

John is a Chartered Accountant.

He joined the AIM listed recruitment group Imprint plc at its inception in 2001 as Chief Financial Officer. At Imprint plc he also served as Chief Operating Officer and Chief Executive Asia Pacific & Middle East and was instrumental in the development of the business to a market capitalisation, at its peak, of some £100m.

In early 2010, John cofounded Argyll Scott's Asian business, and in 2012 he was appointed Group Chief Executive.

Overview of Hydrogen

- The Board is focussed on building market leading specialist teams executed by setting up incubators that the Group seeks to grow to attain market leader status.
- The ultra-niche model is supported through the utilisation of digital marketing to build and maintain relationships.
- The Group's operating model is international and split by geography with staff in EMEA 174, USA 9 and APAC 34.
- Within each region are individual practices; Technology, Finance, Energy, Legal, Life Science and Business Transformation.

FY2016 - Financial summary

- Group revenue to 31 December 2016 totalled £116.2m (2015: £123.6m*)
- Full year Net Fee Income⁺ was 8.8% lower, at £17.7m (2015: £19.4m*) with Energy declining by £1.6m (EMEA decline of £1.5m and APAC decline of £0.1m)
- Growth in contract NFI of 11% to £11.6m (2015: £10.5m)
- Adjusted** PBT £0.8m (2015: £0.2m*)
- Profit before tax and exceptional items of £1.7m (2015: £0.1m*)
- Profit before tax of £1.7m (2015: loss £5.4m*) with APAC returning to profitability
- No exceptional items in 2016 (2015: £5.5m including goodwill impairment charge of £3.5m)
- Strong balance sheet with net cash at year end £2.0m (2015: £2.6m)
- Basic EPS in the year of 6.8p (2015: loss of 24.1p). Adjusted*** basic EPS in the year of 6.8p (2015: 0.5p)

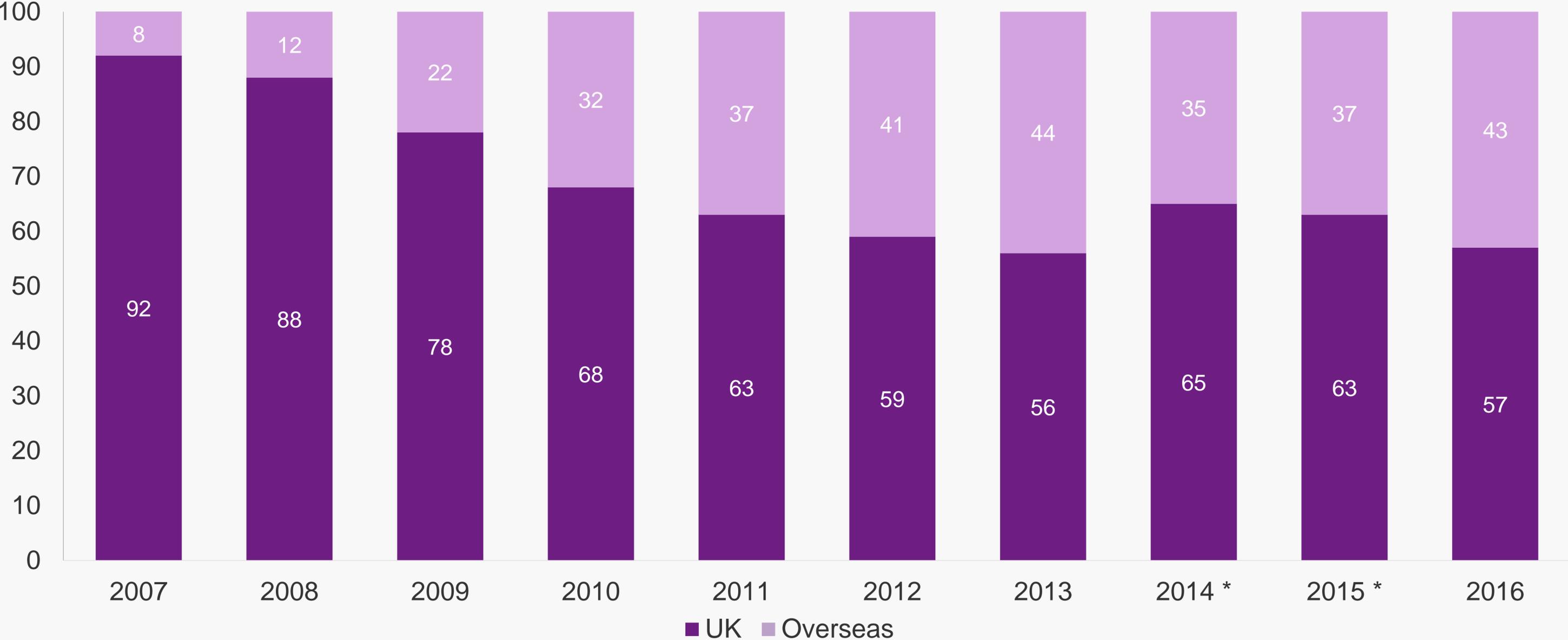
+ Net Fee Income - which is the equivalent of gross profit

* Restated for the change in accounting policy on revenue

** Adjusted for foreign exchange gains, share based payments and exceptional items.

*** Adjusted for exceptional items

NFI%: UK and International



*restated

Strategy

Our purpose:

Empowering Careers. Powering Business: *our candidates, our staff, our clients, our investors*

Our mission:

To shape the future of work through our knowledge of niche markets, passion for people's ambition and obsession with innovation

Key drivers:

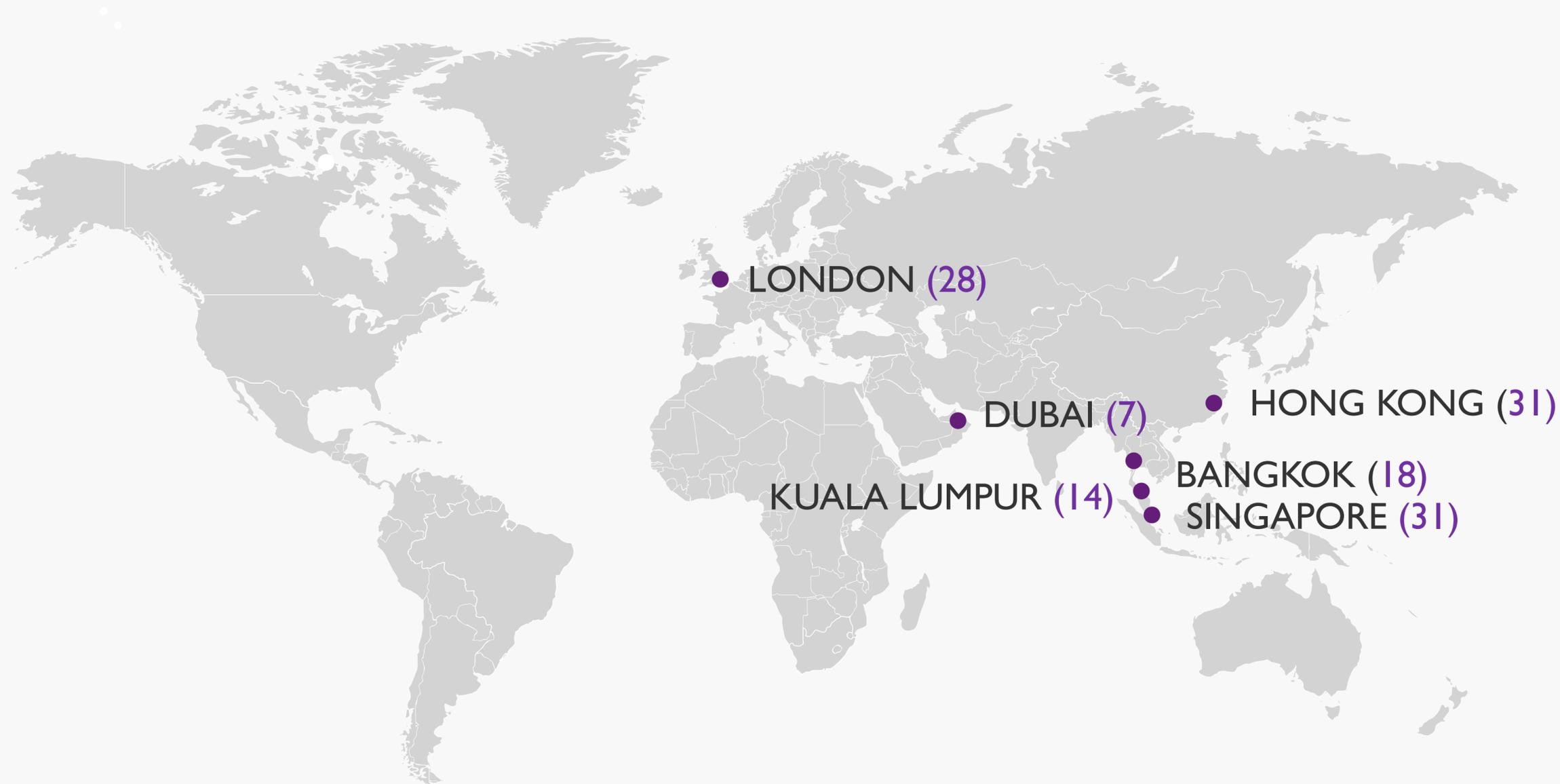
Digital innovation improving the productivity of our consultants. Leveraging our global infrastructure. Growing the number of market leading niche businesses

Merger Opportunity

Overview Argyll Scott

- Founded in 2009, it recruits for contract, interim and permanent middle management positions across a range of key business functions and multiple industry sectors.
- Between 2009 – 2016, it grew organically to 96 staff operating from offices in London, Dubai, Hong Kong, Singapore and Bangkok.
- In January 2017, it acquired the Hong Kong, Singapore and Kuala Lumpur operations of Reed, further strengthening and broadening its footprint in Asia.
- In 2016, 82% of the Argyll Scott Group's revenue was derived from permanent recruitment; 18% from contract and interim.
- It was listed in The Sunday Times "100 Best Companies to Work for" in 2016 and 2017.

Argyll Scott Geographies & Core Specialisms



- Accounting & Finance
- Business Transformation
- Financial Services
- Marketing
- Sales
- Technology

(x) number of staff in each location

Rationale and benefits

Accelerate the Hydrogen Group's growth

- Argyll Scott's current market position will rapidly expand the Hydrogen Group's presence in APAC
- Generate increased economies of scale
 - diluting central costs
 - potential to realise central office cost synergies through the alignment of internal IT systems, procedures, processes

Diversification

- Diversify customer revenue concentration within the Enlarged Group
- Increase the proportion of NFI from outside the UK to greater than 50%

Opportunity for further value creation

- Leverage the Hydrogen Group's investment in digital marketing and infrastructure
- Enlarged APAC presence will increase proximity to a broader candidate base to service clients
- Increase the complementary skills of Hydrogen and Argyll Scott and increased resources to compete more effectively

Argyll Scott – Pro forma Income Statement

	FY 2016*
Revenue	£18.1m
Gross profit (Net fee income)	£8.4m
Operating costs	(£7.6m)
Other income	-
Operating profit	£0.8m
- EMEA	-
- APAC	£0.8m
- Group costs	-
Finance costs	(£0.1m)
Finance income	-
Profit for the period before tax	£0.7m
Taxation	£0.2m
Profit for the period after tax	£0.5m
Attributable to owners	£0.3m
Attributable to non-controlling interests	£0.2m

* Excludes the business acquired from Reed Specialist Recruitment (Global) Limited in 2017

The unaudited consolidated pro forma income, balance sheet and cash flow statements for Argyll Scott for the year ended 31 December 2016 have been prepared based on audited accounts, prepared under local GAAP, of each subsidiary.

Argyll Scott – Pro forma Summary of financial position

	31 DEC 2016*
Non-current assets	£0.1m
- Intangible assets	-
- Tangible assets	£0.1m
- Other assets	-
Current assets	£3.7m
- Debtors	£2.9m
- Cash and cash equivalents	£0.7m
Total assets	£3.7m
- Current liabilities	£3.0m
- Non-current liabilities	£0.2m
Total liabilities	£3.2m
Net assets	£0.5m

* Excludes the business acquired from Reed Specialist Recruitment (Global) Limited in 2017

Current liabilities includes a £615k liability to Redgrave search which will be assigned to Hydrogen Group

Net cash position as at 31 December £0.02m

Excludes allocation of non controlling interests

The unaudited consolidated pro forma income, balance sheet and cash flow statements for Argyll Scott for the year ended 31 December 2016 have been prepared based on audited accounts, prepared under local GAAP, of each subsidiary.

Argyll Scott – Cashflow

	2016
Operating cashflows before working capital movements	£0.9m
Working capital movement	(£0.6m)
- Movement in receivables	(£0.4m)
- Movement in payables	(£0.2m)
Finance costs	(£0.1m)
Tax paid	(£0.1m)
Net cash used in investing activities	(£0.1m)
Increase/(decrease) in borrowings	£0.2m
Dividends paid	(£0.1m)
Exchange gain on translation	£0.1m
Movement in cash in the year	£0.2m
Cash and cash equivalents	£0.71m
Borrowings	(£0.69m)
Net cash	£0.02m

The unaudited consolidated pro forma income, balance sheet and cash flow statements for Argyll Scott for the year ended 31 December 2016 have been prepared based on audited accounts, prepared under local GAAP, of each subsidiary.

Acquisition terms

Initial Consideration

- Issue of 9,034,110 new ordinary shares representing approximately 27.4 per cent. of the enlarged share capital
- Certain vendors will retain minority interests in certain subsidiary companies

Minority Interests

- Certain vendors will retain minority interests in four Argyll Scott Holdings as follows:
 - Andrew Dallas: 10% of Argyll Scott Holdings International Limited
 - Rodney Fraser: 30% of Argyll Scott Holdings Technology Limited
 - Shane Sibraa: 30% of two companies comprising Argyll Scott Asia
- The Hydrogen Group will acquire the minority interests over a four year period ending 30 April 2021

Lock-in / Orderly Market

- All shares issued as consideration will be subject to a 12 month lock-in and subsequent 12 month orderly market from the date of admission
- The Directors of Hydrogen have also entered into a 12 month lock-in and subsequent 12 month orderly market agreement

Minority interests

- Hydrogen Group has agreed to acquire the remaining interests in tranches at a 25% discount to Hydrogen's P/E ratio at the end of each period ending 30 April.
- The P/E ratio applied will have a floor of 5x and a cap of 7.5x
- This multiple will be applied to the subsidiary's profit after tax in calculating the level of consideration to be paid for the minority interest
- Consideration to be satisfied in cash or by issue of new ordinary shares, at Hydrogen's sole discretion
 - Each vendor may elect to receive up to £75,000 of the consideration due to him in cash in any year where consideration is payable

Proposal and summary



Strategy and outlook for the Enlarged Group



Multi brand with a focus on **growing our incubators** and fast growth businesses to market leaders



Focus on improving our **profit conversion** on our market leading businesses



Integrate back office and leverage **global platform**



Exploring **M&A opportunities**

Summary of objectives



Organically
grow NFI by
over 10% pa



Organically grow
adjusted PBT by
at least 20% pa



Increase our
underlying PBT
to NFI conversion to
greater than 10%

Next steps and proposed timetable

- Large shareholders being wall crossed with a view to securing irrevocable undertakings to vote in favour of the resolution to issue shares to the vendors
- Announcement of the proposed acquisition and posting of shareholder circular on or around 9 May 2017
- AGM and GM to approve the resolution to be held on 2 June
- Admission of the consideration shares and completion of the acquisition 5 June